



ATOMIC ENERGY OF CANADA LIMITED

First Quarter Financial Report

**Interim Condensed Consolidated Financial
Statements (Unaudited)**

**As at and for the three months ended June 30,
2014 and June 30, 2013**

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1 MESSAGE FROM THE PRESIDENT

As we enter the new fiscal year, I'm pleased to announce that AECL has sustained its momentum in the first quarter of 2014-2015, building on the many accomplishments that were achieved last year. Thanks to the strategic direction of the AECL leadership team and the dedication of our employees, we continue to meet our commitments to our stakeholders as we position the organization for future success.

Our Corporate Plan guides these efforts. AECL received Governor in Council approval for its Corporate Plan in Q1, which confirms that the company's corporate direction is aligned with the Government of Canada's vision for AECL and will help us navigate through the greatest period of transition in AECL's 60 year history.

In this quarter AECL continued to focus on organizational improvement and to deliver on its Value Proposition as we transition through restructuring. AECL realized progress across all of its programs consistent with plans, thereby supporting Government of Canada priorities for a clean and healthy environment, healthy Canadians, a safe and secure Canada, and an innovative and knowledge-based economy. Our Q1 financial performance is on track and is slightly ahead of plan for commercial revenues.

AECL provided strong support to the Canadian nuclear power sector this quarter. The Canadian Nuclear Safety Commission (CNSC) approved Ontario Power Generation's (OPG) request to remove the regulatory hold for the Pickering Nuclear Generating Station thanks to the results of surveillance work conducted by AECL and partners. This achievement will result in the continued operation of several reactors and helps OPG to avoid costly retube projects. AECL also worked closely with Candu Energy Inc. on a number of projects this quarter, including the completion of fuel channel inspections of a CANDU nuclear power plant in Romania, which helped to inform the restart and continued operation of the reactor.

With respect to nuclear safety and security, AECL participated in the largest nuclear emergency exercise ever conducted in Canada. Known as Exercise Unified Response, the full-scale training exercise is already being considered a success. The exercise allowed AECL to test its capabilities in several areas, including environmental radiation and assurance monitoring, bio-dosimetry, modelling and dose projection, risk assessment and human impacts, as well as situational awareness. Overall, the exercise provides AECL with important data that will be used to enhance and improve its emergency response capabilities.

AECL continues to make enhancements to the NRU reactor. This quarter, we successfully completed the installation of a second Multi-Capsule Rod (MCR) assembly into the reactor. The MCR is a versatile irradiation facility that provides AECL with the capability to irradiate large quantities of target material, and is expected to lead to new revenue generation through new and existing supply agreements. AECL's planned extended NRU maintenance outage was also successfully completed this quarter, on schedule, within budget and

without incident, completing all maintenance and improvement activities as per conditions of AECL's operating license.

With respect to AECL's Nuclear Environmental Stewardship Program, AECL successfully completed the training of operators and the cold commissioning of the Fuel Packaging and Storage (FPS) facility. The completion of this work is a major step forward towards the active commissioning and eventual operation of this important facility, which will result in the long-term storage of irradiated fuel in environmentally controlled conditions.

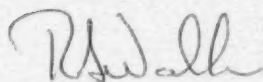
I'm also pleased to report that the University Network of Excellence in Nuclear Engineering (UNENE) awarded two new Collaborative Research & Development grants this quarter for projects that involve partnerships between Canadian universities and AECL. These collaborations are an important part of the work undertaken by AECL, which helps Canadian science and technology communities advance their innovative agendas through access to our unique capabilities, expertise and facilities.

Looking to the future, construction activities have begun on Building 350, AECL's new laboratory complex. Scheduled for completion in 2017, this versatile laboratory will offer AECL employees and its partners a state-of-the-art collaborative and inter-disciplinary facility to conduct nuclear research and development. Once completed, the new facility will extend and enhance AECL's capabilities as Canada's premier nuclear science and technology organization.

Finally, this quarter a Certificate of Incorporation was issued under the Canada Business Corporation Act for the incorporation of an AECL subsidiary known as Canadian Nuclear Laboratories Limited. This represents an important milestone in the restructuring of AECL.

It has been a busy and productive quarter here at AECL, and I'd like to extend my thanks and appreciation to everyone across the organization. All of this work is being carried out to position AECL to sustain value through the restructuring process and beyond, and to seize the opportunity that it represents. Our employees are working hard to establish the conditions for our current and future success.

And this work will continue. As we turn our attention to the year ahead of us, we can anticipate large changes here at AECL. However, it is clear to me through our rich history, through our commitment to excellence and, most importantly, through our recent performance, that AECL is well-prepared to confront the challenges, and to embrace the opportunities, that lay ahead of us.



Robert Walker
President & Chief Executive Officer

2 MANAGEMENT'S NARRATIVE DISCUSSION

2.1 Introduction

Management's Narrative Discussion is designed to provide the reader with a greater understanding of AECL's business, its business strategy and performance, its expectations of the future, and how the Corporation manages risk and capital resources. It is also intended to enhance the understanding of the unaudited interim condensed consolidated financial statements for the first quarter of 2014-2015 and accompanying notes. Management's Narrative Discussion should therefore be read in conjunction with these documents, in addition to the 2013-2014 AECL Annual Financial Report for the year ended March 31, 2014.

Unless otherwise indicated, all financial information presented in Management's Narrative Discussion, including tabular amounts, is in Canadian dollars and is prepared in accordance with International Financial Reporting Standards (IFRS).

Management's Narrative Discussion was authorized for issue by the Board of Directors on August 7, 2014.

2.2 Our Business

AECL is an agent Crown corporation reporting to Parliament through the Minister of Natural Resources Canada. AECL is headquartered at Chalk River, Ontario and employs more than 3,250 full-time staff.

AECL provides value to Canadians as: an advisor to, and agent of, the Government of Canada for public policy purposes; an enabler of business innovation and technology transfer; and a generator of highly-qualified people.

AECL's vision is to be a global partner in nuclear innovation. The Corporation's overriding objective or "strategic outcome" is to ensure that Canadians and the world receive energy, health, environmental and economic benefits from nuclear science and technology, with confidence that nuclear safety and security are assured.

Management organizes its business activities and evaluates its financial results through its Nuclear Laboratories, which is responsible for achieving the business goals established in AECL's Corporate Plan. Management also maintains a small staff complement in Oakville, Ontario under the Wrap-Up Office to manage retained liabilities related to AECL's Commercial Operations business as at the date of its sale in October 2011.

AECL receives federal funding through appropriations and contracts that enable it to: act as an advisor to and agent of the Government of Canada in matters of public policy, produce medical isotopes, and manage legacy and historic wastes from the past development of nuclear technology in Canada.

AECL also generates revenue from the provision of nuclear science and technology and related testing services. This includes: medical isotopes; support for CANDU-related technology; nuclear research and development and testing services for COG, individual CANDU utilities, Candu Energy Inc. and other third parties; and commercial waste management services for hospitals and universities.

AECL undertakes a series of Programs, identified below, that have been established to fulfil the Corporation's strategic outcome. These Programs are aligned with and support the Government of Canada's priorities for a clean and healthy environment; healthy Canadians; a safe and secure Canada; and an innovative and knowledge-based economy.

Nuclear Industry Capability	Ensures that the Canadian nuclear sector remains safe and productive with access to science and technology resources to address emergent technological challenges, and that Canada maintains a strong nuclear power sector.
Nuclear Safety & Security	Ensures that federal activities, regulations and policies, related to nuclear or radiological issues, are supported by the necessary expertise and facilities.
Clean, Safe Energy	Involves the development of energy technologies that make a beneficial impact on Canada's use of clean energy.
Health, Isotopes & Radiation	Ensures that Canadians experience health benefits from nuclear science and technology.
Nuclear Environmental Stewardship	Ensures that Canada's federal nuclear sites are clean and healthy environments.
Nuclear Innovation Networks	Ensures that the Canadian science and technology communities can advance their innovation agendas through access to federal nuclear innovation infrastructure and expertise.
Mission-Ready Science & Technology Infrastructure	Ensures that scientists and engineers from AECL and its partner organizations have access to licensed facilities and services that enable nuclear innovation and production in a safe campus environment that is fully compliant with all legislation for conducting nuclear-related activities.
Internal Services	Provides the business and administrative support functions and infrastructure to enable the efficient and effective delivery of the above programs.

2.3 Highlights of First Quarter 2014-2015

2.3.1 Health, Safety, Security and Environment

- In Q1, AECL implemented a Corporate Wellness Working Group to assist in the development, implementation and promotion of health and wellness initiatives and programs across the company. Through this initiative, AECL is working to increase the awareness and adoption of positive health behaviours, and to provide a supportive work environment to foster positive lifestyle changes for all AECL employees.
- This quarter, AECL experienced a slight increase in Lost Time Injury (LTI) frequency compared to the same quarter in the previous fiscal year. However, this trend reflects an overall annualized reduction of LTI events per month. There has also been a significant reduction in the LTI Severity Rate, First Aid injuries and Medical Aid injuries during this period, which can be attributed to increased focus on leadership responsibilities, safety awareness, injury and illness oversight, new weekly reporting and an increased focus on timely corrective actions.

2.3.2 Program Activities

Nuclear Industry Capability

- AECL's Replica Evaluation, Measuring & Analysis System (REMAS) was deployed by Candu Energy Inc. for fuel channel examinations during the planned outage of a nuclear power plant in Ontario. The state-of-the-art technology enables the characterization of reactor components that deliver high-quality, accurate information that was required in order to restart the reactor following the maintenance outage.
- AECL successfully completed performance testing of its Emergency Core Cooling System Strainers (ECCS) this quarter on behalf of Candu Energy Inc. Developed by AECL, the strainers are a key component of reactor safety systems to ensure the circulation of adequate cooling water during loss-of-coolant accidents.
- Using AECL's innovative Fuel Channel Inspection System (AFCIS) technology, an inspection team composed of AECL and Candu Energy Inc. experts successfully completed fuel channel inspections of a CANDU nuclear power plant in Romania, which helped to inform the restart and continued operation of the reactor.
- The Canadian Nuclear Safety Commission (CNSC) officially approved Ontario Power Generation's (OPG) request to extend the operation of the reactors past the normal design life based on the results of surveillance work conducted in AECL's hot cells, and will result in the continued operation of several reactors and the avoidance of costly retube projects.

Nuclear Safety and Security

- AECL and the CNSC hosted a successful international workshop this quarter titled “Enhancing Safety of Pressurized Heavy Water Reactors (PHWR) post-Fukushima.” The workshop focused on work undertaken in countries with PHWRs since Fukushima. Overall, the event provided Canada with the opportunity to better understand research and regulatory activities in other PHWR countries, and to benchmark its science and technology program and its role in informing regulation.
- AECL participated in the largest nuclear emergency exercise ever conducted in Canada, thereby allowing the company to assess its Nuclear Emergency Functions under the Federal Nuclear Emergency Plan. Known as Exercise Unified Response, the full-scale training exercise involved AECL representation from task teams in several areas, including environmental radiation and assurance monitoring, bio-dosimetry, modelling and dose projection, risk assessment and human impacts, and situational awareness.

Clean, Safe Energy

- In Q1, AECL completed important testing on its tritium-battery technology that is being developed to generate greater power outputs that are currently available. The work was conducted in AECL’s newly commissioned multipurpose glove box in its Tritium Facility, a unique facility that is critical to the development of this technology. Overall, this work is expected to lead to future commercial and business development opportunities for AECL.
- AECL discovered a new formulation of catalyst this quarter that has been found to be effective for hydrogen hazard mitigation under accident conditions in Boiling Water Reactors (BWRs). This promising discovery is an important achievement that aligns with AECL’s objectives concerning the assurance of nuclear safety and security through science and technology.
- A preliminary estimate was also completed this quarter to evaluate and better understand the capital costs involved in the construction of a Canadian supercritical water reactor (SCWR). The figures indicate that economic improvement over current-generation reactors is achievable, which helps to demonstrate the viability of the next-generation of Canadian nuclear power reactor technology.

Health, Isotopes and Radiation

- AECL successfully completed the installation of a second Multi-Capsule Rod (MCR) assembly into the NRU reactor in Q1. The MCR is an extremely versatile irradiation facility that provides AECL with the capability to irradiate large quantities of target material, and is used to produce a variety of isotopes in NRU. The completion of this installation paves the way for new isotope opportunities and increased revenue generation through new and existing supply agreements with AECL customers.

- AECL's Integrated Implementation Plan (IIP), a five year program of improvement activities being conducted on the NRU reactor and a key condition of AECL's Chalk River Laboratories site licence, continues to be executed to schedule. AECL also completed the fourth annual, 30-day planned extended outage of NRU. In addition to other significant maintenance activities, we completed all required vessel inspections. The results of these inspections were positive with no indications of change to vessel condition; the NRU vessel remains fit for service.

Nuclear Environmental Stewardship

- The training of operators and cold commissioning of the Fuel Packaging and Storage (FPS) facility was completed this quarter, closing out a key milestone from the 2013-2014 fiscal year. The conclusion of this work represents a vital step towards the active commissioning and future operation of FPS. Once complete, the FPS facility will remove irradiated fuel from tile hole storage locations on the Chalk River site, dry the fuel and repackage it for long term storage in environmentally controlled conditions.
- Communication of AECL's decommissioning, waste management and remediation activities were improved this quarter through the launch of redesigned websites for the Nuclear Legacy Liabilities Program (NLLP) and the Port Hope Area Initiative (PHAI). In addition to updated and more detailed content, both websites will provide visitors with better access to information about these important projects, offering AECL improved engagement with the public and its various stakeholders.
- Contracts were successfully awarded to three joint ventures for the conceptual design of a cementation system to address the inventory of legacy radioactive liquid waste currently stored in historic tanks at AECL's Chalk River site. Addressing this inventory is a priority project within NLLP, and aligns with AECL objectives to ensure that federal nuclear sites are clean and healthy environments.

Nuclear Innovation Networks

- This quarter, AECL partnered with the Sylvia Fedoruk Canadian Centre for Nuclear Innovation to host the first Ideas Exchange Network at the Chalk River Laboratories. The event was developed as an opportunity to educate Saskatchewan researchers on the unique research capabilities offered by AECL, and to discuss potential partnership opportunities for research projects that align with both AECL and Fedoruk Centre objectives.
- The University Network of Excellence in Nuclear Engineering (UNENE) awarded two new Collaborative Research & Development grants in Q1 for projects that involve partnerships between Canadian universities and AECL. These collaborations help Canadian science and technology communities advance their innovation agendas through access to AECL's unique nuclear infrastructure and expertise.

- AECL participated in the Automotive Parts Manufacturers' Association (APMA) annual conference and exhibition in Windsor, Ontario with the aim of creating greater awareness of the materials testing expertise that CRL can provide to the industry. The event generated a significant number of opportunities for new business, and efforts are underway to move discussions forward.

Mission-Ready Science & Technology Infrastructure

- AECL's annual planned extended NRU maintenance outage was successfully completed this quarter on schedule, without incident and with 94 per cent critical path activities achieved. The outage enabled completion of many large, complex maintenance and improvement activities, as well as in-vessel inspections. Overall, the outage ensures that NRU is readily available and operated safely and compliantly in support of AECL's science and technology programs.
- Construction activities have begun on Building 350, AECL's new laboratory complex. Scheduled for completion in 2017, Building 350 will offer AECL employees and its partners a state-of-the-art collaborative and inter-disciplinary facility to conduct cutting-edge nuclear research and innovation. Once completed, the world-class facility will extend and enhance AECL's capabilities as Canada's premiere nuclear science and technology organization to the benefit of Canadians and the nuclear industry.
- The Loop Return to Service project in NRU continues to achieve progress against full recovery and operation. These achievements include the successful operation of the U2 Loop "Un-spoiled, Hot and Pressurized", passing the first return-to-service performance goal. The NRU Loops enable the testing of fuel and other materials under conditions that closely match those within an actual CANDU reactor, providing AECL with a one-of-a-kind capability.

Internal Services

- This quarter, a Certificate of Incorporation was issued under the Canada Business Corporation Act for the incorporation of an AECL subsidiary, known as Canadian Nuclear Laboratories Limited. This represents an important milestone in the restructuring of AECL, which will implement a Government-owned, Contractor-operated (GoCo) model to manage and operate the AECL Nuclear Laboratories.
- AECL worked with an external agency this quarter to conduct a Voice of the Customer (VoC) survey with its customer base. This feedback exercise was undertaken to ensure that AECL clients are properly serviced and satisfied, and to give them a voice to improve the quality and delivery of AECL services. These exercises help AECL to strengthen its relationships with existing customers and identify opportunities for improvement in its products and services.

2.3.3 Commercial Operations (Discontinued Operations)

- AECL's Wrap-Up Office continues to address outstanding obligations arising from its Commercial Operations (Discontinued Operations), including the commercial and legal work required to defend, assert and settle outstanding claims. The Wrap-Up Office also continues to manage its outstanding obligations related to the life extension projects through its subcontractor, Candu Energy Inc.
- During the quarter, AECL and its customer, Bruce Power A L.P. agreed to settle its dispute and end the arbitration proceedings in connection with the refurbishment of units 1 and 2 of the Bruce A generating station, as described in Note 17 (d) of the Corporation's audited annual consolidated financial statements for the year ended March 31, 2014.

2.3.4 Financial

- AECL's comprehensive loss was \$319 million in Q1 2014-2015 compared to a \$717 million comprehensive income in the same period of the previous year. The \$1,036 million variance relates primarily to the quarterly revaluation of the decommissioning and waste management liability.

As per AECL reporting standards, the decommissioning and waste management liability is re-valued quarterly on a discounted or net present value basis using the interest rate in effect at the end of the quarter. When the interest rate decreases, the liability increases. Conversely, when the interest rate increases, the liability decreases. In both cases, the change in liability impacts the Corporation's reported net income or net loss, but is a non-cash income or expense and does not impact AECL's funding requirements for the reporting year.

The interest rate at June 30, 2014 was 0.18% lower than the March 31, 2014 rate while the interest rate at June 30, 2013 was 0.39% higher than the March 31, 2013 rate. As a result, AECL's reported liability increased by \$352 million in the first quarter of 2014-2015 compared to a decrease in the liability of \$706 million in Q1 2013-2014.

- The Government of Canada provided funding to allow AECL to move forward with its planned activities in accordance with its Corporate Plan. Several of the more significant funded initiatives during the quarter were:
 - \$88 million to support ongoing Chalk River site operations and regulatory, health, safety and environmental needs; science and technology activities; and capital infrastructure renewal and the Isotope Supply Reliability Program initiatives.
 - \$46 million for decommissioning and waste management activities.

- The 2014-2015 year-to-date results are generally comparable to the planned results presented and approved in AECL's 2014-2015 Corporate Plan. As such, AECL is on track to meet its commitments, within budget, and the financial performance measures for the current fiscal year as outlined in its 2014-2015 Corporate Plan.

2.3.5 Outlook

- 2014-2015 major priorities and deliverables are described in AECL's 2013-2014 Annual Financial Report in the "Management's Discussion and Analysis" section. These priorities and deliverables have not materially changed in the first three months of 2014-2015.

2.4 Forward-Looking Statements

This Management's Narrative Discussion has been reviewed by AECL's Audit Committee and approved by AECL's Board of Directors. It provides comments on the performance of AECL for the quarter ended June 30, 2014 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes.

The Management's Narrative Discussion contains forward-looking statements with respect to AECL based on assumptions that management considers reasonable at the time of preparation. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause future results to differ materially from current expectations. We caution the reader that the assumptions regarding future events, many of which are difficult to predict, may ultimately require revision.

2.5 Financial Review by Organization

2.5.1 Nuclear Laboratories

For the three month period ended June 30	2014	2013
(\$ millions)		
Revenue and Funding		
Revenue	\$ 30	\$ 22
Parliamentary appropriations	77	76
Cost recoveries from third parties and other	4	6
Decommissioning and waste management funding	46	42
Total revenue and funding	\$ 157	\$ 146
Gross margin	\$ 16	\$ 7
Operating expenses	\$ 78	\$ 89
Financial expenses	\$ 57	\$ 50
Net income (loss) before Revaluation (loss) gain on decommissioning and waste management provision and other	\$ 10	\$ (6)

2.5.1.1 Revenue

In Q1 2014-2015, the Nuclear Laboratories generated \$30 million in revenue related to its support for the nuclear industry capability, compared to \$22 million in Q1 2013-2014. Revenue included isotope sales, commercial technology sales, nuclear waste management, and research and development activities performed for the CANDU Owners Group (COG). The reported improvement can be attributed primarily to increased work performed for COG and increased isotope sales.

2.5.1.2 Parliamentary Appropriations

Appropriations are applied to the Nuclear Laboratories programs that are aligned with federal science and technology priorities. The Corporation recognized \$77 million of Parliamentary appropriations in the first quarter of 2014-2015, consistent with Q1 2013-2014 of \$76 million.

2.5.1.3 Cost Recoveries from Third Parties and Other

Nuclear Laboratories manages historic low-level radioactive wastes through the Low-Level Radioactive Waste Management Office and the Port Hope Area Initiative Management Office

on a cost recovery basis for Natural Resources Canada (NRCan). The activities help to ensure sound environmental stewardship for Canada and represent the majority of AECL's cost recoveries. NRCan provided \$4 million in funding in Q1 2014-2015 to support both program offices' initiatives.

2.5.1.4 Decommissioning and Waste Management Funding

Nuclear Laboratories received funding for the Nuclear Legacy Liabilities Program (NLLP), a Government of Canada funded initiative to address radioactive waste and decommissioning liabilities associated with AECL sites. Funding recognized during the first quarter of 2014-2015 of \$46 million was generally comparable to the \$42 million received in Q1 2013-2014.

2.5.1.5 Gross Margin

Gross margin increased from \$7 million in Q1 2013-2014 to \$16 million in Q1 2014-2015. This increase stems primarily from the increased revenues described above and a higher gross margin as percentage of revenue for products and services sold in this quarter compared to those sold in the same quarter of the prior year.

2.5.1.6 Operating Expenses

Total operating expenses for the Nuclear Laboratories were \$78 million in the first quarter of 2014-2015 compared to \$89 million in Q1 2013-2014. This variance relates mostly to the inclusion of a greater portion of the site operating costs appropriately assigned to AECL's decommissioning liability.

2.5.1.7 Financial Expenses

Financial expenses primarily include the increase in the net present value of the decommissioning and waste management provision (due to the passage of time). Financial expenses in Q1 2014-2015 of \$57 million were greater than the \$50 million reported in Q1 2013-2014 due to the higher Decommissioning and waste management provision recorded at 2014 March compared to 2013 March as described in AECL's Annual Financial Report for the year ended March 31, 2014.

2.5.1.8 Net Income (Loss) Before Revaluation (Loss) Gain on Decommissioning and Waste Management

Nuclear Laboratories reported a net income before Revaluation (loss) gain on decommissioning and waste management of \$10 million in the first quarter compared to a \$6 million net loss in Q1 2013-2014. This increase was the result of the increase in gross margin and decrease in operating expenses which were partly offset by the increase in financial expenses, as discussed above.

2.5.2 Commercial Operations (Discontinued Operations)

For the three month period ended June 30	2014	2013
(\$ millions)		
Total revenue	\$ -	\$ 21
Parliamentary appropriations	\$ -	\$ -
Gross margin	\$ -	\$ 22
Operating expenses	\$ (11)	\$ 12
Net income from discontinued operations	\$ 11	\$ 11

2.5.2.1 Revenue

Certain life extension projects retained by AECL as at the date of the sale of the Commercial Operations business to Candu Energy Inc continued to be wound down. There was no revenue recorded in the first quarter of 2014-2015 due to this decrease in activity.

2.5.2.2 Gross Margin

Gross margin of \$nil in the first quarter of 2014-2015 reflects the reduction in revenue recorded, as described above, and corresponding reduction in costs associated with the close out of the life extension projects.

2.5.2.3 Operating Expenses

Operating expenses decreased by \$23 million in the first quarter. This decrease is mostly attributable to reduced activity compared to the same period in 2013-2014 as well as recognition of insurance proceeds.

2.6 Consolidated Cash Flow and Working Capital (Before Discontinued Operations)

For the three month period ended June 30 (\$ millions)	2014	2013
Cash from operating activities	\$ 53	\$ 26
Cash used in investing activities	(18)	(20)
Cash		
Increase	35	6
Balance at beginning of the period	49	35
Balance at end of the period	\$ 84	\$ 41

Overall, AECL's Q1 2014-2015 closing cash position increased to \$84 million from the balance at the close of Q1 2013-2014 of \$41 million.

2.6.1 Operating Activities

Operating activities generated a net cash inflow of \$53 million in Q1 2014-2015 compared to \$26 million in Q1 2013-2014. The first quarter variance is largely the result of decreased cash paid to suppliers.

2.6.2 Investing Activities

Investing activities used cash of \$18 million in Q1 2014-2015 comparable to the \$20 million used in Q1 2013-2014.

2.7 Highlights of the Consolidated Balance Sheet

(\$ millions)	June 30, 2014	March 31, 2014	Variance In \$	Variance By %
Assets	\$ 1,085	\$ 1,062	\$ 23	2%
Liabilities	8,903	8,555	348	4%
Shareholder's deficit	7,818	7,493	325	4%

AECL closed Q1 2014-2015 with assets of \$1,085 million, which represents a \$22 million increase in assets from March 31, 2014. This variance is mainly the result of an increase in the cash balance at the end of Q1 2014-2015.

The increase in Liabilities of \$349 million can be attributed primarily to the change in the Decommissioning and waste management provision of \$352 million, which mainly resulted from the decrease in the interest rate used to estimate the reported liability.

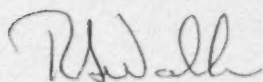
2.8 Management of Risks and Uncertainties

Risks and uncertainties are described in AECL's 2013-2014 Annual Financial Report under the section "Management's Discussion and Analysis." Risks and uncertainties and risk management practices associated with the Nuclear Laboratories and retained Commercial Operations liabilities as noted in the 2013-2014 Annual Financial Report have not materially changed in the first three months of 2014-2015.

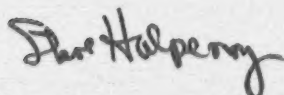
3 MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and fair presentation of these condensed consolidated quarterly financial statements in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations," and for such internal controls as Management determines is necessary to enable the preparation of condensed consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the condensed consolidated quarterly financial statements.

Based on our knowledge, these unaudited condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the condensed consolidated quarterly financial statements.



Robert Walker
President & Chief Executive Officer
August 29, 2014
Chalk River, Canada



Steven Halpenny
Chief Financial Officer
August 29, 2014
Chalk River, Canada

4 UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Interim Condensed Consolidated Balance Sheets (Unaudited)

			June 30, 2014	March 31, 2014
(thousands of Canadian dollars)	Notes			
Assets				
Current				
Cash		\$	83,713	\$ 49,179
Trade and other receivables	10		171,753	188,713
Current portion of long-term receivables			24,210	23,886
Inventory			26,260	25,835
			305,936	287,613
Long-term receivables			74,897	80,913
Investments held in trust			44,409	44,116
Heavy water inventory			304,703	304,910
Property, plant and equipment	4		345,500	335,789
Intangible assets			9,220	8,892
		\$	1,084,665	\$ 1,062,233
Liabilities				
Current				
Trade and other payables	7,10	\$	94,420	\$ 108,010
Customer advances and obligations	10		15,563	13,690
Provisions	5,10		144,523	151,873
Current portion of decommissioning and waste management provision	6		202,100	214,500
Restructuring provision	10		3,388	3,472
			459,994	491,545
Decommissioning and waste management provision	6		7,899,647	7,535,142
Deferred capital funding	8		313,527	302,997
Deferred decommissioning and waste management funding			201,940	196,009
Employee benefits	7		28,290	29,058
			8,903,398	8,554,751
Shareholder's deficit				
Share capital			15,000	15,000
Contributed capital			228,724	235,628
Deficit			(8,062,457)	(7,743,146)
			(7,818,733)	(7,492,518)
		\$	1,084,665	\$ 1,062,233

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

For the three months ended (thousands of Canadian dollars)	Notes	June 30, 2014	June 30, 2013
Nuclear Laboratories			
Revenue		\$ 30,429	\$ 21,683
Cost of sales		14,789	14,370
Gross margin		15,640	7,313
Funding	8	50,194	47,654
Operating expenses		77,979	89,263
Operating loss		(12,145)	(34,296)
Financial income	9	1,579	1,883
Financial expenses	9	57,054	49,813
Net loss before Parliamentary appropriations and Revaluation (loss) gain on decommissioning and waste management provision and other		\$ (67,620)	\$ (82,226)
Parliamentary appropriations	8	77,472	76,098
Net income (loss) before Revaluation (loss) gain on decommissioning and waste management provision and other		\$ 9,852	\$ (6,128)
Revaluation (loss) gain on decommissioning and waste management provision and other	6	(339,720)	712,223
Net (loss) income from continuing operations before discontinued operations		\$ (329,868)	\$ 706,095
Discontinued Operations (Note 10)			
Operating income from discontinued operations	10	10,557	10,568
Income from discontinued operations before Parliamentary appropriations		10,557	10,568
Parliamentary appropriations for discontinued operations	8	-	-
Net income from discontinued operations		\$ 10,557	\$ 10,568
Net (loss) income		\$ (319,311)	\$ 716,663
Other comprehensive income (loss)			
Items that will not be reclassified to profit and loss:			
Other employee benefit plan actuarial gain (loss)		-	-
Other comprehensive income (loss)		-	-
Total comprehensive (loss) income		\$ (319,311)	\$ 716,663

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

***Interim Condensed Consolidated Statements of Changes in Shareholder's Deficit
(Unaudited)***

(thousands of Canadian dollars)

For the three months ended June 30, 2014

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2014	\$ 15,000	\$ 235,628	\$ (7,743,146)	\$ (7,492,518)
Net loss attributable to Shareholder for the period	-	-	(319,311)	(319,311)
Transfer to deferred decommissioning and waste management funding	-	(5,931)	-	(5,931)
Transfer to repayable contributions	-	(973)	-	(973)
Balance at June 30, 2014	\$ 15,000	\$ 228,724	\$ (8,062,457)	\$ (7,818,733)

For the three months ended June 30, 2013

	Share Capital	Contributed Capital	Deficit	Total Shareholder's Deficit
Balance at March 31, 2013	\$ 15,000	\$ 264,071	\$ (7,934,974)	\$ (7,655,903)
Net income attributable to Shareholder for the period	-	-	716,663	716,663
Transfer to deferred decommissioning and waste management funding	-	(5,930)	-	(5,930)
Transfer to repayable contributions	-	(842)	-	(842)
Balance at June 30, 2013	\$ 15,000	\$ 257,299	\$ (7,218,311)	\$ (6,946,012)

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

Interim Condensed Consolidated Cash Flow Statements
(Unaudited)

For the three months ended (thousands of Canadian dollars)	June 30, 2014	June 30, 2013
Operating activities		
Cash receipts from customers	\$ 60,311	\$ 68,247
Cash receipts from Parliamentary appropriations	88,000	85,000
Cash receipts for decommissioning and waste management activities	45,273	60,019
Cash paid to suppliers and employees	(95,392)	(145,500)
Cash paid for decommissioning activities	(45,627)	(41,886)
Interest received on investments (net)	126	102
Interest and bank charges paid	(10)	(11)
Cash from operating activities	52,681	25,971
Thereof from discontinued operations	5,564	(11,288)
Investing activities		
Acquisition of property, plant and equipment and intangible assets	(18,147)	(20,075)
Cash used in investing activities	(18,147)	(20,075)
Thereof from discontinued operations	-	-
Cash:		
Increase	34,534	5,896
Balance at beginning of the period	49,179	35,461
Balance at end of the period	\$ 83,713	\$ 41,357

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three month period ended June 30, 2014

(Expressed in thousands of Canadian dollars)

(UNAUDITED)

1. The Corporation

Atomic Energy of Canada Limited (AECL or the Corporation) was incorporated in 1952 under the provisions of the *Canada Corporations Act* (and continued in 1977 under the provisions of the *Canada Business Corporations Act*), pursuant to the authority and powers of the Minister of Natural Resources under the *Nuclear Energy Act*.

The Corporation is a Schedule III Part I Crown corporation under the *Financial Administration Act* and an agent of Her Majesty in Right of Canada. As a result, AECL's liabilities are ultimately liabilities of Her Majesty in Right of Canada. The Corporation receives funding from the Government of Canada and is exempt from income taxes in Canada.

AECL conducts its business through the Nuclear Laboratories and the Wrap-Up Office, which manages the retained liabilities associated with AECL's Commercial Operations (Discontinued Operations), sold on October 2, 2011. These organizations aid in resource allocation decisions and assess operational and financial performance. Nuclear Laboratories includes the management of the decommissioning and waste management liability on behalf of the Government of Canada. AECL is domiciled in Canada and its address is Chalk River Laboratories, Chalk River, Ontario, K0J 1J0.

These unaudited interim condensed consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on August 7, 2014.

2. Restructuring and Corporate Plan

The Government of Canada completed the first phase of its restructuring plan for AECL in 2011-2012 with the sale of the Corporation's Commercial Operations business to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin. The restructuring of AECL has resulted in the presentation of its Commercial Operations as discontinued operations (Note 10).

In February 2012, the Government of Canada formally launched the second phase of its AECL restructuring plan in relation to the Nuclear Laboratories. The Government of Canada's restructuring initiative is focusing on the long-term mandate, governance and management structure of the Nuclear Laboratories. Natural Resources Canada, in collaboration with Public

Works and Government Services Canada (PWGSC), is leading the restructuring on behalf of the Minister of Natural Resources.

In February 2013, the Government of Canada announced its intention to contract with the private sector for the management of AECL based on a Government owned, Contractor operated model, known as a GoCo. Under this model, activities at the Nuclear Laboratories will be focused on managing Canada's radioactive waste and decommissioning responsibilities, performing science and technology activities to meet federal core obligations and supporting Canada's nuclear industry through access to world-class facilities and expertise on a commercial basis

In March 2014, a Request for Response Evaluation (RFRE) was issued to invite interested bidders to pre-qualify for the procurement process based on a set of financial, technical and security requirements. This pre-qualification process will ensure that interested bidders that advance in the procurement process have the necessary skills and experience to manage facilities as complex as those of the AECL Nuclear Laboratories. Interested bidders who qualify through the RFRE process and meet mandatory national security requirements will be able to submit a bid as part of the Request for Proposal (RFP) stage.

In June 2014, a Certificate of Incorporation was issued under the Canada Business Corporation Act for the incorporation of the Site Operating Company, Canadian Nuclear Laboratories Limited, which will function initially as an AECL subsidiary before transfer to the GoCo.

AECL's 2014-2015 Corporate Plan received Governor in Council approval in the first quarter of the 2014-2015 fiscal year. The Corporate Plan is aligned with the restructuring direction provided by the Shareholder and these unaudited interim condensed consolidated financial statements have been prepared without making any assumptions as to the final outcomes of the second phase of the restructuring. As such, they do not contemplate any changes to AECL's existing activities.

3. Basis of Preparation

a) Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34. As permitted under IAS 34, these unaudited interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended March 31, 2014.

The Corporation's unaudited interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as of the balance sheet date.

b) Basis of Presentation

The Corporation's unaudited interim condensed consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments, which are measured at fair value, and Employee benefits and the Decommissioning and waste management provision, which are measured based on the discounted value of expected future cashflows.

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousands, except where otherwise indicated.

c) Basis of Consolidation

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the Corporation's financial statements from the date that control commences until the date that control ceases.

These unaudited interim condensed consolidated financial statements include the accounts of the Corporation's wholly-owned subsidiaries, Canadian Nuclear Laboratories Limited, incorporated in Canada in 2014; AECL Technologies Inc., incorporated in the state of Delaware, U.S.A. in 1988; AECL Technologies B.V., incorporated in the Netherlands in 1995; and its interest in AECL's Nuclear Fuel Waste Act Trust Fund, a structured entity (as defined in Note 4(a) of the Corporation's audited annual consolidated financial statements for its fiscal period ended March 31, 2014). All inter-company transactions have been eliminated upon consolidation.

d) Critical Accounting Estimates, Assumptions and Judgments

The preparation of financial statements in conformity with IAS 34 guidelines requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Corporation's accounting policies. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant are disclosed in Note 3(c) of the Corporation's audited annual consolidated financial statements for the year ended March 31, 2014.

e) Significant Accounting Policies

Significant accounting policies applied in these unaudited interim condensed consolidated financial statements are disclosed in Note 4 of the Corporation's audited annual consolidated financial statements for the year ended March 31, 2014. The accounting policies have been applied consistently to the current and comparative quarters with the exception of certain reclassifications as disclosed in Note 12.

4. Property, Plant and Equipment

<i>(thousands of Canadian dollars)</i>	June 30, 2014	March 31, 2014
Balance - Beginning of period	\$ 335,789	\$ 286,371
Additions and transfers	14,332	102,498
Disposals and transfers	(886)	(29,968)
Other changes	637	(2,342)
Depreciation	(4,372)	(18,082)
Impairment	-	(2,688)
Balance - End of period	\$ 345,500	\$ 335,789

5. Provisions

<i>(thousands of Canadian dollars)</i>	June 30, 2014	March 31, 2014
Contract loss	\$ 8,957	\$ 15,595
Other provisions	135,566	136,278
	\$ 144,523	\$ 151,873

6. Decommissioning and Waste Management Provision

	June 30, 2014	March 31, 2014
<i>(thousands of Canadian dollars)</i>		
Carrying amount - Beginning of period	\$ 7,535,142	\$ 7,765,040
Carrying amount - Beginning of period, current portion	214,500	205,000
Liabilities settled	(48,109)	(212,908)
Unwinding of discount	57,347	210,151
Effect of change in discount rate	338,102	(829,768)
Revision in estimate and timing of expenditures	2,256	600,812
Revision in estimate and timing of expenditures affecting Property, plant and equipment	-	(2,342)
Waste, decommissioning and site restoration costs from ongoing operations	2,509	13,657
Carrying amount - End of period	8,101,747	7,749,642
Less current portion	(202,100)	(214,500)
	\$ 7,899,647	\$ 7,535,142

The provision is re-valued at the current interest rate in effect at each balance sheet date.

The provision as at June 30, 2014 was discounted using a rate of 2.78%. The opening balance as at March 31, 2014 was discounted using a rate of 2.96%.

The effect of a change in the interest rate on the provision is recognized in Revaluation (loss) gain on decommissioning and waste management provision and other in the unaudited Interim Condensed Consolidated Statements of Comprehensive Income (Loss). The total charge, relating to the interest rate change, for the first quarter was \$338,102 (Q1 2013-2014: \$714,995 gain).

The change in estimate reported at March 31, 2014 resulted from a revision to a key assumption underlying the decommissioning and waste management liability cost estimate. The presence of an operating reactor affects the attribution of indirect site operating and support costs included in the liability estimate. Previously, it was assumed that there would be an operating reactor on the Chalk River site throughout most of the decommissioning plan period. As a result of restructuring related discussions with its Shareholder around the possibility and timing of a replacement research reactor after NRU's scheduled 2021 shutdown, Management decided to adopt a more relevant position and assume no replacement reactor, as the reference assumption.

7. Employee Benefits

a) Pension Plan

Employees of the Corporation participate in the Public Service Pension Plan (PSPP). The PSPP is a contributory defined benefit plan established through legislation and sponsored by the

Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution.

Total contributions made on account of current service are as follows:

For the three month period ended June 30		2014		2013
<i>(thousands of Canadian dollars)</i>				
Payments by employees	\$	5,474	\$	4,922
Payments by employer	\$	8,439	\$	8,349

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of two per cent of pensionable service, multiplied by the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and are indexed to inflation.

b) Employee Benefits

The Corporation provides certain voluntary termination compensation (VTC) and other post-employment benefits as described in Note 4(m) of the annual audited consolidated financial statements dated March 31, 2014. The defined benefit obligation is not funded, as funding is provided when benefits are paid. Accordingly, there are no plan assets and the defined plan deficit is equal to the defined benefit obligation of \$32.6 million (March 31, 2014: \$33.4 million) of which \$28.3 million (March 31, 2014: \$29.1 million) is recorded as Employee benefits under long-term liabilities and \$4.3 million (March 31, 2014: \$4.3 million) is recorded as Trade and other payables.

The VTC included in the reported Employee benefits liability is \$15.8 million (March 31, 2014: \$15.8 million) and is payable in instances of future voluntary resignations and retirements. Consistent with Government of Canada expectations of federal agencies or Crown corporations, AECL began eliminating this benefit in fiscal 2012-2013.

As the elimination of the VTC is agreed upon and implemented, employees eligible for payment of the accrued benefits are offered three options with respect to the timing of the payments. An estimate of the amounts expected to be paid in 2014-2015 is based on the Corporation's most recent actuarial valuation and is included in Trade and other payables.

The Corporation's total expense for employee benefits was \$1.4 million for this quarter (Q1 2013-2014: \$1.5 million).

8. Funding

a) Parliamentary Appropriations

AECL segregates its Parliamentary appropriations, which include Statutory Funding, to ensure funds are spent in a manner consistent with the basis for which they were approved. Approved Main Estimates include amounts for Facilities and Nuclear Operations and Research and Development. Approved Supplementary Estimates are in support of the operation and maintenance of the Chalk River Laboratories and are used as an augmentation to the Main Estimates. Statutory Funding relates to amounts associated with obligations pursuant to the divestiture of the Commercial Operations business.

For the three months ended June 30, 2014, Parliamentary appropriations were received and recognized as follows:

For the three month period ended June 30 <i>(thousands of Canadian dollars)</i>	2014	2013
Parliamentary appropriations - Nuclear Laboratories, operating		
Nuclear Laboratories, operating	\$ 73,803	\$ 72,759
Amortization of deferred capital funding	3,669	3,339
Parliamentary appropriations - Nuclear Laboratories, operating	77,472	76,098
Parliamentary appropriations - Discontinued Operations, operating	-	-
Parliamentary appropriations - capital		
Capital infrastructure refurbishment	14,197	12,241
Total Parliamentary appropriations	\$ 91,669	\$ 88,339

In Q1 2014-2015, the Corporation received \$88 million and recognized a sum of \$92 million (Q1 2013-2014: \$85 million received and \$88 million recognized).

The difference between received and recognized Parliamentary appropriations relate to the recording of Amortization of deferred capital funding. Capital funding is received as funds are required but is recognized simultaneously with the depreciation of the related asset in AECL's Interim Condensed Consolidated Statements of Comprehensive Income (Loss).

There were no Parliamentary appropriations receivable as at June 30, 2014.

b) Other Funding

Other funding was recognized as follows:

For the three month period ended June 30	2014	2013
<i>(thousands of Canadian dollars)</i>		
Operating funding		
Cost recoveries from third parties and other	\$ 4,421	\$ 5,819
Decommissioning and waste management	45,773	41,835
	<u>\$ 50,194</u>	<u>\$ 47,654</u>

c) Deferred Capital Funding

Deferred capital funding arises from Government appropriations used by the Corporation for capital investments. The reported balances are derived as follows:

	June 30, 2014
<i>(thousands of Canadian dollars)</i>	
Deferred capital funding	
Deferred capital funding as at March 31, 2014	\$ 302,997
Capital funding received during the period	14,197
Amortization of Deferred capital funding	(3,669)
Other changes	2
Deferred capital funding as at June 30, 2014	<u>\$ 313,527</u>

	March 31, 2014
<i>(thousands of Canadian dollars)</i>	
Deferred capital funding	
Deferred capital funding as at March 31, 2013	\$ 238,860
Capital funding received	77,784
Amortization of Deferred capital funding	(13,647)
Deferred capital funding as at March 31, 2014	<u>\$ 302,997</u>

9. Financial Income and Expenses

For the three month period ended June 30	2014	2013
<i>(thousands of Canadian dollars)</i>		
Financial income		
Interest on long-term receivables	\$ 1,453	\$ 1,781
Interest on investments and other	126	102
	<u>\$ 1,579</u>	<u>\$ 1,883</u>
Financial expenses		
Interest on long-term payables	\$ -	\$ -
Unwinding of discount on decommissioning and waste management provision net of trust fund income	57,054	49,813
	<u>\$ 57,054</u>	<u>\$ 49,813</u>

10. Discontinued Operations

On October 2, 2011, the Government of Canada sold AECL's Commercial Operations to Candu Energy Inc., a wholly-owned subsidiary of SNC-Lavalin, at which point Candu Energy Inc. assumed full ownership and day-to-day operational control over the Commercial Operations.

The sale involved certain AECL-owned assets to Candu Energy Inc. and an exchange of undertakings among the three parties (AECL, SNC-Lavalin and the Government of Canada). A suite of agreements executed at the close of the transaction covers such matters as intellectual property and the new provision of inter-company services between AECL and Candu Energy Inc. It also includes sub-contracting agreements relating to the existing life extension projects, whereby Candu Energy Inc. will complete the contracts as a sub-contractor to AECL, which retains contractual responsibility. All proceeds from the sale of the assets were remitted to the Receiver General of Canada.

A Restructuring provision was recorded for \$36.5 million, of which \$33.2 million has been paid as of June 30, 2014 (March 31, 2014: \$33.0 million) and \$3.3 million remained to complete the process (March 31, 2014: \$3.5 million).

The entire Commercial Operations are considered a discontinued operation. Income and cash flows for the Commercial Operations (Discontinued Operations) are reported separately in these unaudited interim condensed consolidated financial statements in accordance with IFRS 5.

Results of Discontinued Operations

For the three month period ended June 30	2014		2013	
(thousands of Canadian dollars)				
Revenue	\$	3	\$	20,663
Cost of sales		13		(1,815)
Gross margin		(10)		22,478
Operating expenses		(10,567)		11,910
Operating income from discontinued operations	\$	10,557	\$	10,568

The following balances included in the unaudited Interim Condensed Consolidated Balance Sheets relate to ongoing projects and restructuring costs included in Discontinued Operations:

	June 30,	March 31,
<i>(thousands of Canadian dollars)</i>	2014	2014
Assets		
Trade and other receivables	\$ 110,277	\$ 121,848
Liabilities		
Trade and other payables	\$ 7,891	\$ 11,365
Customer advances and obligations	11,347	11,301
Provisions	142,673	150,023
Restructuring provision	3,388	3,472

11. Commitment and Contingency

As part of the sale of AECL's Commercial Operations, the Government of Canada, through AECL, began providing Candu Energy Inc. with up to \$75 million to support the completion of the Enhanced CANDU Reactor development program. As at June 30, 2014, \$73 million (Q1 2013-2014: \$53million) of this amount had been expensed and \$73 million (Q1 2013-2014: \$52 million) had been paid by AECL. Additionally, under certain conditions outlined in the contract with Candu Energy Inc., AECL may be responsible for reimbursing Candu Energy Inc. for certain costs.

12. Comparative Figures

In the second quarter of the 2013-2014 fiscal year, the Corporation voluntarily changed its accounting policy relating to the disclosure of Parliamentary appropriations in its Interim Condensed Consolidated Statements of Comprehensive Income (Loss) in accordance with IAS 8. As a result, the Q1 2013-2014 Parliamentary appropriations recognized in income of \$73 million have been allocated and disclosed separately in the Nuclear Laboratories and Discontinued Operations sections of the Interim Condensed Consolidated Statements of Comprehensive Income (Loss). This change in policy has been made in order to better reflect the use of the funds received.

The Corporation has also reclassified the Amortization of deferred capital funding to conform to the financial statement presentation adopted in the 2013-2014 fiscal year. In the Q1 2013-2014 comparative figures, the \$3 million of Amortization of deferred capital funding, has been reclassified from Funding to Parliamentary appropriations in the Nuclear Laboratories section of the Interim Consolidated Statements of Comprehensive Income (Loss) in order to better reflect the nature of this item.

The Corporation has reclassified certain figures in the Nuclear Laboratories section of the Interim Condensed Consolidated Statements of Comprehensive Income (Loss) in accordance with IAS 1. In this instance the Corporation has grouped the Funding (Q1 2013-2014: \$42 million) and Financial expenses (Q1 2013-2014: \$50 million) related to Decommissioning and waste management with those disclosed under Nuclear Laboratories. These reclassifications have been made to provide a clearer presentation of the Corporation's operational results. For both Funding and Financial expenses, the details of these grouped amounts remain available in Notes 8 and 9 of AECL's interim condensed consolidated financial statements, respectively.

Additionally, the Corporation has reclassified costs relating to royalties earned amounting to \$1.1 million from Operating expenses to Cost of Sales to conform to the consolidated financial statement presentation adopted in the 2013-2014 fiscal year. This reclassification will better reflect the nature of these expenses.

For the three month period ended June 30
(thousands of Canadian dollars)

	2013	adjustments	2013 Restated
Revenue	\$ 21,683	\$ -	\$ 21,683
Cost of sales	13,237	1,133 ^{F (3)}	14,370
Gross margin	\$ 8,446	\$ (1,133)	\$ 7,313
Funding - Nuclear Laboratories			
Cost recoveries from third parties and other	\$ 5,819	\$ 41,835 ^{F (1)}	\$ 47,654
Amortization of deferred capital funding	3,339	(3,339) ^{F (2)}	-
Funding - Nuclear Laboratories	9,158	\$ 38,496	47,654
Funding - Decommissioning and Waste Management	41,835	(41,835) ^{F (1)}	-
Total Funding	\$ 50,993	\$ (3,339)	\$ 47,654
Operating Expenses	\$ 90,396	\$ (1,133) ^{F (3)}	\$ 89,263
Financial Expenses - Nuclear Laboratories	\$ -	\$ 49,813 ^{F (4)}	\$ 49,813
Financial Expenses - Decommissioning and Waste Management	49,813	(49,813) ^{F (4)}	-
Total Financial Expenses	\$ 49,813	\$ -	\$ 49,813
Parliamentary appropriations	\$ 72,759	\$ (72,759) ^{F (5)}	\$ -
Parliamentary appropriations - Nuclear Laboratories			
Amortization of deferred capital funding	-	3,339 ^{F (2)}	3,339
Parliamentary appropriations - Nuclear Laboratories	-	72,759 ^{F (5)}	72,759
Parliamentary appropriations - Nuclear Laboratories	72,759	3,339	76,098
Parliamentary appropriations - Discontinued Operations	-	- ^{F (5)}	-
Total Parliamentary appropriations	\$ 72,759	\$ 3,339	\$ 76,098
Net Income from continuing operations	\$ 633,336 ^{F (6)}	\$ 72,759	\$ 706,095
Net Income from Discontinued Operations	10,568 ^{F (6)}	-	10,568
Other comprehensive income (loss)	-	-	-
Total Comprehensive Income (Loss)	\$ 716,663	\$ -	\$ 716,663

(1) Reclassification from Decommissioning and Waste Management Funding to Funding

(2) Reclassification from Funding to Parliamentary appropriations

(3) Reclassification from Operating expenses to Cost of sales

(4) Reclassification from Decommissioning and Waste Management Financial Expenses to Financial Expenses

(5) Allocation of Parliamentary appropriations to Nuclear Laboratories and Discontinued Operations

(6) Before Parliamentary appropriations

(7) Including Parliamentary appropriations



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